



Performance Management

PAY FOR PERFORMANCE: 2008 Salary Budget Recommendations

Executive Review

November 28, 2007

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AGENDA

Performance Management

➤ **Background**

- Compensation Philosophy & Strategy

➤ **Market Study**

- Salary Increase Budgets
- Market Analysis of Competitive Cash Compensation
- Review Of Past Practices

➤ **Recommendations**

- Pay Increase Budget
- Distribution Curve - Performance Rating and Merit Increase

➤ **Approval Process for 2008**

- Confirm process and timing for GWL & Board Comp Committee

➤ **Bonus Communication**

- 2007 Bonus Plans and Metrics Approval
- 2008 Bonus Plans

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Elements of Cash Compensation

For most employees at Lucasfilm, the elements of cash compensation will be base pay and annual bonus (short term incentive) payments. These elements will be used in benchmarking our total cash compensation to relevant positions in the external market.

Benchmarking

Lucasfilm will benchmark total cash compensation at the 50th percentile for most positions, using compensation surveys that are relevant to the specific job or job family. Positions that are defined as highly competitive and/or critical to achieving business objectives such as all studio and technical positions are benchmarked at the 65th percentile.

Base Salary Adjustments (Merit Increases)

Base salary adjustments will be done annually, linked to employee performance reviews. The level of increases will be determined by analyzing both external market practices and company performance and then will be awarded based on individual performance.



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Market Study

Salary Increase Budgets

Utilized Surveys

- Radford (Includes SW & Tech Industry in SF/Bay Area)
- Croner Entertainment and Educational Software (Gaming Industry)
- Croner Animation and Visual Effects in the (Film Industry)

Industry Specific Budgets

- Studios and Gaming

CPI

- San Francisco-Oakland-San Jose, CA – All items

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Market Study

Salary Increase Budgets

Surveys

- Radford (AON):
- Croner EECS:
- Croner AVE:
- World at Work:

Merit

4.3%

4.2%

4.0%

4.0%

Including Promo/Adj

5.7%

5.6%

5.8%

5.0%

Note: Survey data is local information for Bay Area/Northern California

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Market Study

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Salary Increase Budgets

Studio/Network (updates ongoing)

Company	Merit		Promo/Adj		Total		Increase Effctv Date
	FY07	FY08	FY07	FY08	FY07	FY08	
Disney	4.5%	4.0%	2.0%	2.0%	6.50%	6.00%	4/1
Pixar	3.0%	3.0%	1.5%	1.5%	4.50%	4.50%	4/1
Sony	4.0%	4.0%	1.0%	1.0%	5.00%	5.00%	7/1
Dreamworks	4.0%	4.0%	1.0%	1.0%	5.00%	5.00%	4/1
Paramount	3.5%	3.75%	1.0%	1.0%	4.50%	4.75%	7/1
Universal	4.3%	4.0%	0.0%	1.0%	4.30%	5.00%	3/1
Electronic Arts	4.0%	4.0%	1.5%	1.5%	5.5%	5.50%	3/1
20th Century Fox	3.5%	3.5%	1.5%	1.0%	5.00%	4.50%	7/1
Warner Bros	4.5%	4.5%	0.5%	0.5%	5.00%	5.00%	1/1

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Market Study

Salary Increase Budgets

CPI – 2007

- October 2007: 3.3%
- 1st Half 2007: 3.3%

CPI - 2006

- Annual: 3.2%
- 2nd Half 2006: 3.3%
- 1st Half 2006: 3.2%

Series Id: CUURA422SA0, CUUSA422SA0

Not Seasonally Adjusted

Area: San Francisco-Oakland-San Jose, CA

Item: All Items

Base Period: 1982-84=100

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
1987	2.7	3.1	4.1	3.7	3	3.1	3	3.6	3.4	3.6	3.6	4.2	3.4	3.2	3.6
1988		3.4		3.1		3.4		3.3		2.9		3	3.2	3.3	3.1
1989		3.8		4.6		3.8		4.1		4.8		4.2	4.2	4	4.4
1990		4.2		3.8		4.2		4.7		4.7		5.5	4.5	4	4.8
1991		6.5		5.8		6.6		5.1		4.5		3.5	5.4	6.2	4.7
1992		1.8		2.1		1.2		1.3		1.4		1.4	1.6	1.9	1.4
1993		3.3		2.2		1.6		1.4		1		1.1	1.8	2.3	1.2
1994		0.2		0.5		1.4		1.2		2		2.2	1.2	0.7	1.7
1995		1.6		2.1		1.1		2.2		2.8		2	2	1.7	2.2
1996		2.9		3.2		3.9		3.8		2.5		3.4	3.2	3.2	3.3
2007		3.2		3.3		3.4		2.6		3.3				3.3	

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Market Study

Analysis of Competitive Pay Compensation

Market Data Comparison October 2007															
Company	Number of Employees	Average Base Salary	Market Base Salary 50th	Market Base Salary 65th	Market Base Salary 75th	Comparison to 50th 55th	Comparison to 65th 75th	Average Total Cash Comp	Total Cash Comp at Max Pay	Market Total Cash Comp 50th 55th	Market Total Cash Comp 65th 75th	Market Total Cash Comp 75th 95th	Comparison to 50th 55th	Comparison to 65th 75th	Comparison to 75th 95th
Matched to 50th%															
LFL	110	\$93,234	\$98,540	\$107,509	\$117,016	94.6%	86.7%	\$102,570	\$111,181	\$110,542	\$120,540	\$127,808	92.8%	85.1%	100.6%
LIC	34	\$98,593	\$100,667	\$113,524	\$123,190	97.9%	86.8%	\$108,453	\$116,587	\$111,972	\$121,975	\$129,239	96.9%	88.9%	104.1%
LECL - Non IT/IS	79	\$70,139	\$74,429	\$78,351	\$81,103	94.2%	89.5%	\$74,011		\$80,485	\$86,950	\$91,606	92.0%	85.1%	
SPL	43	\$65,953	\$76,592	\$81,309	\$84,647	86.1%	81.1%	\$74,015	\$79,674	\$85,076	\$89,877	\$93,258	87.0%	82.4%	93.7%
Matched to 65th%															
LAL	104	\$101,075	\$104,570	\$110,852	\$115,292	91.2%	87.7%	\$106,476		\$111,336	\$121,260	\$128,466	87.8%	82.9%	
ILM - Non Union	195	\$99,920	\$98,599	\$102,580	\$105,341	97.4%	94.9%	\$101,478		\$102,677	\$111,605	\$118,075	90.9%	85.9%	
LEC	422	\$78,850	\$81,662	\$84,405	\$86,295	93.4%	91.4%	\$88,964		\$91,579	\$95,658	\$98,498	93.0%	90.3%	
LECL - IT/IS	85	\$86,954	\$90,612	\$95,864	\$98,830	90.7%	88.0%	\$93,040		\$99,509	\$105,283	\$109,356	88.4%	85.1%	
SS	26	\$76,980	\$78,492	\$82,906	\$86,014	92.9%	89.5%	\$80,087		\$85,544	\$90,887	\$94,671	88.1%	84.6%	
ILM - Union	330	\$121,124	\$120,433	\$125,583	\$129,163	96.4%	93.8%	\$123,960		\$126,544	\$131,874	\$135,577	94.0%	91.4%	
SS - Union	93	\$94,490	\$97,516	\$99,402	\$100,684	95.1%	93.8%	\$96,380		\$99,516	\$101,402	\$102,684	95.0%	93.9%	
Overall	1521	\$93,142	\$96,430	\$101,876	\$105,712	94.5%	89.1%	\$103,580		\$102,301	\$114,159	\$122,981	92.4%	87.1%	100.03%

Excludes Executives and Senior Management

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Market Study

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Cost Analysis of Competitive Pay Position

Group	Number of Employees	Base Salary				Annual Cash Comp			
		Cost to Attain 50th %tile		Cost to Move to 65th %tile		Cost to Attain 50th %tile		Cost to Move to 65th %tile	
		\$	%	\$	%	\$	%	\$	%
Exec/Sr. Mgmt	25	\$133,927	1.7%	\$953,387	12.1%	\$2,006,151	19.2%	\$4,176,106	39.9%
Matched to 50th%									
LFL	110	\$583,660	5.7%	\$1,570,250	15.3%	\$876,920	7.8%	\$1,976,700	17.5%
LIC	34	\$70,516	2.1%	\$507,654	15.1%	\$119,646	3.2%	\$459,748	12.5%
LECL - Non IT/IS	79	\$338,910	6.1%	\$648,748	11.7%	\$511,446	8.7%	\$1,022,181	17.5%
SPL	43	\$457,477	16.1%	\$660,308	23.3%	\$475,623	14.9%	\$682,066	21.4%
		Cost to Attain 65th %tile		Cost to Move to 75th %tile		Cost to Attain 65th %tile		Cost to Move to 75th %tile	
Matched to 65th%									
LAL	104	\$1,016,808	9.7%	\$1,478,568	14.1%	\$1,537,536	13.9%	\$2,286,960	20.7%
ILM - Non Union	195	\$518,700	2.7%	\$1,057,095	5.4%	\$1,974,765	10.0%	\$3,236,415	16.4%
LEC	422	\$2,344,210	7.0%	\$3,141,790	9.4%	\$2,824,868	7.5%	\$4,023,348	10.7%
LECL - IT/IS	85	\$757,350	10.2%	\$1,009,460	13.7%	\$1,040,655	13.2%	\$1,386,860	17.5%
SS	26	\$154,076	7.7%	\$234,884	11.7%	\$280,800	13.5%	\$379,184	18.2%
Overall	1123	\$6,375,634	6.5%	\$11,262,144	11.6%	\$11,648,410	12.0%	\$19,629,568	20.2%
Proposed Salary Budget									
Merit	4%	\$3,896,259							
Callouts	1%	\$974,065							
Total	5%	\$4,870,324							

Excludes Union Employees

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Recommendations

Pay Increase Budget

Merit Increase and Call-outs Pool - General Population

- 4.0% Merit Increase Pool
- 1.0% Adjustment/Promotion Pool

Market Adjustment Pool –

Key and At Risk Employees and/or Approved Business Groups

- 1.0 – 2.0% Additional Market Adjustments

After Review Process –

- Continue to monitor market movement and incorporate changes based on needs to sustain recruiting and retention

Considerations -

- Change comp philosophy and match studio positions to the 75th percentile and non-studio positions to the 65th percentile.
- LAL/LAS bonus plan or supplemental merit pool

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Approval Process & Timing

GWL and Board Compensation Committee

Currently Scheduled:

- Mich/Executive Review Meetings – March 4 thru March 10
- Mich Final Review Meeting – March 12
 - Pass 2 meeting scheduled for March 14 if needed

Meetings & Schedule To Be Determined:

- Mich/George Review Meeting – Friday, March 14
 - Mich and George usually have meetings on Friday
- Board Compensation Committee Meeting – Tuesday, March 18 or Wednesday, March 19
 - This could be scheduled as a conference call
 - Information package sent out prior to meeting

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